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DEPT FOR SRAP, SCA/FO, SCA/RA, AND SCA/A, NEA
DEPT PASS USAID FOR AID/ANE
DEPT PASS USTR FOR DELANEY AND DEANGELIS
DEPT PASS OPIC FOR ALDONAS AND STRASSER
DEPT PASS TDA FOR STEIN AND GREENIP
USOECF FOR ENERGY ATTACHE
TREASURY FOR JCASAL, ABAUKOL, AWELLER, AND MNUGENT
COMMERCE FOR HAMROCK-MANN, DEES, AND FONOVIKH

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SUBJECT: OPIC Delegation Visits Afghanistan

SUMMARY

11. (U) An Overseas Private Investment Corporation (OPIC) delegation -- led by Vice President of Structured Finance Robert Drumheller -- visited Kabul and Herat September 26 to October 2, 2009. While the delegation identified potential partners in several sectors, including mining and agri-business, they also pinpointed weaknesses in Afghanistan's tax and commercial law, infrastructure, and the banking sector that pose serious impediments to new investment. To help address these issues, the delegation reviewed ongoing OPIC-funded projects and explored new possibilities of addressing these issues, including the expansion of small- and medium-sized enterprise lending windows. End Summary.

AFGHAN PRIVATE SECTOR INTERESTS AND CONCERNS

12. (U) OPIC Delegation to Afghanistan:
Robert Drumheller, Vice President of Structured Finance;
Jacqueline Strasser, Deputy Chief of Staff and Acting Vice President and Chief Financial Officer;
John Aldonas, Managing Director; and
Maria Goravanchi, Special Assistant

13. (U) Afghan business leaders, in a roundtable organized and hosted by Minister of Commerce Wahidullah, cited three major obstacles to progress and economic growth: access to credit, access to land, and access to energy. Minister Shahrani listed advances in addressing each of these obstacles: an increase in the number of banks and lending institutions, the draft secure transactions law, the development of industrial parks, a new Afghan government initiative to facilitate public land sales to the private sector, and the Ministry of Water and Energy's work to develop domestic energy sources under the Afghan National Development Strategy.

14. (U) While noting the country's reform measures and relatively good economic performance in 2009, Minister Shahrani admitted that serious problems exist. Despite the expanded banking sector, access to credit is still a challenge due to the lack of credible information about clients. Acknowledging affordable land and power are difficult to obtain, he said the Industrial Park Authority, operating as a corporate entity, should help alleviate some of the problems by providing secure parcels of land with reliable utilities.

15. (U) The focus on the private sector continued in a dinner the Ambassador hosted, which gathered together Afghan and U.S. businessmen from numerous sectors, including mining, food and

beverage, finance, construction, and communications. The dinner was an opportunity for OPIC to meet with current loan recipients as well as to make connections for potential investments and team members reported the dinner resulted in several new contacts. One example of those results is the possibility of negotiations with an Afghan-American company interested in building a large cold storage and refrigeration repair training facility in Kabul. Such a facility would provide key infrastructure needed to expand Afghanistan's agricultural sales and exports.

¶6. (U) In Afghanistan, OPIC has developed an innovative way to invest directly in wholly-owned Afghan small and medium enterprises (SMEs). By providing loans to finance institutions with American shareholders who make long-term SME and agricultural loans to Afghans, OPIC has expanded badly needed SME credit facilities. Vice President Drumheller reported OPIC has provided a \$25 million loan to Afghan Growth Finance, LLC (AGF) for long-term loans to SMEs and agriculture ventures and has another \$30 million for AGF in the pipeline, pending a State/USAID decision on providing \$10 million of this capital infusion. The first tranche of AGF funds has been disbursed to Afghan clients in the food processing, construction, information technology, and alternative energy sources sectors. OPIC is also working with Relief International on a similar agreement to provide financing in support of rural small businesses just above the microfinance level, again pending a \$10 million contribution from State/USAID funding sources. In addition to these non-traditional funding structures, OPIC has financed infrastructure, agricultural support, and manufacturing projects, most notably a \$60 million loan for a Marriott Hotel in Kabul.

AFGHAN INVESTMENT SUPPORT AGENCY

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¶7. (U) The delegation also met with the CEO of the Afghan Investment Support Agency (AISA) Noorullah Delawari. Delawari said he appreciated OPIC's efforts to make financing available to the Afghan business community, but he lamented local banks' high interest rates and lack of available funds. The OPIC delegation pointed out Afghanistan's high interest rates are partially a result of high taxes levied on institutions' interest revenue, as opposed to gross profits of lending. Lending institutions pass that expense onto their customers in the form of higher interest rates. Delawari said he would address the issue with the Central Bank. As the meeting ended, Delawari requested OPIC train an AISA member to process OPIC loan applications. The AISA now has people able to help complete loan applications for other financing/donor organizations. OPIC team members expressed interest in the idea and agreed to consider it.

PROPOSED INVESTMENTS IN THE ENERGY SECTOR

¶8. (U) Over \$135 million in potential Afghan energy sector investments are in the pipeline at OPIC. The delegation visited their smallest energy project, a renewable energy service company requesting \$2 million in working capital financing to support the implementation of wind, solar, and hydro-power projects. OPIC has also tentatively agreed to work with USAID to provide up to \$124 million in financing for the Sheberghan Independent Power Project, a \$250 million 150 megawatt gas-fired power-plant southwest of Mazar-e Sharif. Meeting with Deputy Minister of Water and Energy Ghulas Farooq, Drumheller said the Sheberghan project could be structured to appeal to the private sector and serve as a pilot project to attract future investors. According to the Deputy Minister, the country needs more than ten times the current energy capacity; the need is here to support many future projects.

HERAT INVESTMENT OPPORTUNITIES

¶9. (U) During a three day visit to Herat, the OPIC delegation focused on the growing marble and cashmere sectors. OPIC has an investment in Afghanistan's largest marble quarry located outside of Herat city and is considering a second loan for equipment upgrades.

According to the company's owner, the quarry currently employs 100-120 workers and provides indirect employment for nearly 1000 people in the area. With modern cutting equipment the mine has increased its yield of useable extracted material from five percent to 40-60 percent in fewer than three years. The owner also reported Afghanistan's marble mining industry, unlike other sectors, has not been affected by the global economic crisis. He claimed that with a new road and bridge to the quarry site the area could support dozens of new quarries and still not meet world demand for the high quality product. The company is working with USAID-funded Afghanistan Small and Medium Enterprise Development (ASMED), the Indian Embassy, and local officials to support the road and bridge construction project.

¶10. (U) The OPIC delegation also looked at Herat's cashmere sector. A \$20 million loan is under review for a prominent Afghan-American cashmere buyer to construct a vertically integrated cashmere wool processing facility. The enterprise would build on USAID's project to help farmers improve goat and cashmere production. The OPIC team visited a number of cashmere hand-dehairing facilities employing hundreds of unskilled laborers. All local cashmere suppliers claimed the industry in Herat supports more than one hundred thousand people and could grow exponentially were there a processing facility in place to build the value-added supply chain: collecting, dehairing, washing, and disinfecting the cashmere before exporting for spinning and weaving.

GOVERNOR AND CHAMBER OF COMMERCE SPEAK OUT

¶11. (U) Herat Governor Yusuf Nuristani stressed the region's potential for developing its extractive industry, agri-business, and manufacturing sector. He claimed while there were still many imports from Iran, Herat's industrial park, with more than 350 factories, was squeezing out Iranian trade. (Note: The Governor's upbeat assessment differs from the Commerce Minister's view that the Iranians unfairly disadvantage local Afghan manufacturers through predatory pricing and alleged dumping. End note.) While security is better in Herat than in some other provinces, Nuristani said he

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had recently adopted stricter measures in the city and near the Industrial Park. The Governor stated his support of OPIC's proposed investments in the marble and cashmere sectors and urged the delegation to look at other sectors such as dairy and petroleum products. Members of the Herat Chamber of Commerce, many of whom have interests in the cashmere sector, asked for investment and security support from the international community. They were adamant that such support would exponentially spur Herat's trade growth, reducing its reliance on Iranian goods. Local state TV gave good coverage to the OPIC visit in Herat.

OPIC'S OBSERVATIONS AND TAKEAWAYS

¶12. (SBU) The OPIC delegation was enthusiastic throughout their trip as they visited projects underway and gathered information on potential future investments. Members of the team said they envisioned strong potential partnerships with the private sector and USAID, but they were clear obstacles will continue to hamper progress. Among the most noteworthy issues identified were: opaque tax and commercial laws, banking institutions reluctant to fund commercial loans, basic infrastructure weaknesses, and security problems. The delegation was clear these issues must be more effectively addressed.

¶13. (U) This cable was prepared subsequent to the OPIC delegation's departure from Afghanistan.

EIKENBERRY